



# WEEKLY REPORT

## ARIZONA STATE RETIREMENT SYSTEM

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*For the week ending Friday, April 25, 2003*

Weekly Report is published by the Arizona State Retirement System (ASRS) and provides a summary of legislation that pertains to the ASRS, as well as up-to-date ASRS news. We hope you find it useful. Included is a Quick Reference bill summary. If there are issues you'd like addressed, please let us know.

**\*\*\* Please distribute or make this report available to your employees. \*\*\***

### ASRS News:

- The next ASRS Board meeting is scheduled for Friday, May 16, 8:30 a.m., in the ASRS Phoenix office, 3300 N. Central Ave. ASRS Board Meetings are always open to the public and your attendance is encouraged. Board meeting schedules, agendas and minutes can be found on the ASRS website.

### Next Week in the State Legislature:

- Most ASRS related bills are poised for Third Reading and/or Final Reading next week. It's crunch-time!

## ASRS Legislation NEWS

### Rural Health Insurance Subsidy

The rural Health Insurance Subsidy passed the Senate Committee of the Whole this week with an amendment. The amendment lowers the minimum out-of-pocket costs that a couple must pay before receiving the subsidy if both people are Medicare eligible. The amendment also added some language relating to the ASRS's search for affordable health care coverage in the rural areas and provided the appropriation needed by ASRS to conduct the computer system modifications needed to implement the changes. The next stop for this bill is Third Reading in the Senate, then back to the House for consideration of the amendments.

### Defined Contribution Plan Amendments

The Supplemental Defined Contribution Plan, a needed component of the Modified DROP Program, experienced a few tense days this week, as a lobbyist for a 457 vendor got the bill held up just before Final Read in the hopes of getting an amendment to benefit their client. While the change they were seeking did not impact the ASRS proposed program, the Public Safety Personnel Retirement System objected. After several days of being held hostage between these opposing viewpoints, the ASRS was successful in brokering an amendment that was acceptable to all parties. The amendment relates to employer matching contributions and will not impact our DC Plan. The bill was passed out of Conference Committee and will now go to Final read in both Houses.

### Service Purchase

The Service Purchase bill (HB 2024) was amended in the Senate Committee of the Whole to incorporate the provisions of SB 1160 which never had a hearing. SB 1160 provides for a recalculation of military service purchased prior to 1996. The recalculation will result in refunds to qualifying individuals.

**Other legislation** affecting the ASRS is listed in the attached Quick Reference.

**Quick Reference**  
ASRS Related Legislation  
(Updated through Friday, April 25, 2003)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>HB 2023 – ASRS; unpaid contributions</b> by Huppenthal <b>As Passed the Senate:</b> <ul style="list-style-type: none"> <li>Provides a member with 90 days to make payments after being notified that the employer has paid. If the member does not pay within 90 days, the member is responsible for accrued interest from that date.</li> <li>Provides an employer with 90 days to make payments after being notified of the amount due. If the employer does not pay within 90 days, the employer is responsible for any accrued interest until the amount is paid in full.</li> <li>Provides that the person initiating the request is responsible for providing verification of past employment and qualification for participation in the ASRS.</li> <li>States that, beginning July 1, 2004, the employer is only responsible for making payments for service worked within 15 years of the date of the request.</li> <li>Allows a member to purchase service that was worked prior to the 15-year limit as “other public service.” Provides a member until July 1, 2004 to purchase service worked prior to the 15-year limit under current procedures.</li> <li>States that an ASRS determination of eligibility is appealable to the ASRS Board.</li> </ul>	Passed House 56-0-2. Passed Senate 28-0-2. <b>Assigned:</b> Sen. FIN. <b>Status:</b> Transmitted to Hse. 04/10/03. House Concur 04/16/03. Awaiting Hse. Final Read.	<b>As Passed the Senate:</b> None Expected.	<b>As Passed the Senate:</b> Actuarial letter received stating no cost.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>HB 2024 – ASRS; service purchase; calculation</b> by Huppenthal <b>As Amended in Sen. COW:</b> Contains an emergency clause. <ul style="list-style-type: none"> <li>Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of:               <ol style="list-style-type: none"> <li>The sum of the 12 months of compensation prior to the request.</li> <li>The sum of the 36 months of compensation prior to the request, divided by three.</li> <li>If the member has retired from an ASRS employer, the average monthly compensation used to calculate the member’s last pension, times 12.</li> <li>The annualized compensation of the full pay period prior to the request.</li> <li>The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service.</li> </ol> </li> <li><u>Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest.</u></li> <li><u>Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements.</u></li> </ul>	Passed House 57-0-1. <b>Assigned:</b> Sen. FIN. <b>Status:</b> Passed Sen. FIN DPA 9-0-0. Passed Sen. RULES PFC. <u>Passed Sen. COW DPA. Awaiting Sen. Third Read.</u>	<b>As Amended:</b> Requested.	<b>As Amended:</b> “Current Annual Compensation” definition: Actuarial letter received stating no cost.  <u>Military Service Purchase Refunds: Potential unfunded liability of \$628,050, and increase in the contribution rate for all employers and employees of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change.</u>
<b>HB 2067 – ASRS; technical correction</b> by Huppenthal <b>As Introduced:</b> Makes a technical change to 38-742 “reinstatement.”	<b>Assigned:</b> Hse. RULES. <b>Status:</b> Awaiting Hse. RULES. DEAD (?)	<b>As Introduced:</b> None Expected.	<b>As Introduced:</b> None.
<b>HB 2349 (see SB 1036) – public retirees; rural areas; insurance</b> by Konopnicki, Flake, Wagner, Arzberger, and Brown <b>As Amended in Sen. COW:</b> <ul style="list-style-type: none"> <li>Extends the rural health insurance subsidy for two-years.</li> <li>Establishes minimum out-of-pocket premium costs for health coverage in order to be eligible for the rural subsidy.</li> <li>Requires that the rural subsidy can only be applied to medical insurance premiums.</li> <li>Provides that the family-rate rural subsidy is only available if the retiree has family medical coverage.</li> <li>Requires the ASRS to provide a report to the Legislature on accessibility and affordability of health insurance coverage for retirees.</li> <li>Appropriates \$183,000 from the ASRS administration account to the ASRS for implementation costs.</li> </ul>	Passed House 40-17-3. <b>Assigned:</b> Sen. FIN, Sen. GOV. <b>Status:</b> Passed Sen. FIN DPA 5-2-2. Passed Sen. GOV DP 8-1-0. Passed Sen. RULES PFCA. <u>Passed Sen. COW DPA. Awaiting Sen. Third Read.</u>	<b>As Amended:</b> \$183,000 one-time implementation cost.	<b>As Amended:</b> Unfunded liability of \$19.8 million, an increase in the contribution rate for all employers and employees of 0.014% each, which is a combined cost of \$2.0 million more in contributions annually for 18 years (GF cost of \$225,000 per year).

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>HB 2397 (see SB 1296) – public monies; investment protection</b> by Yarbrough, Martin, Huppenthal, and 4 <b>As Amended in Hse. WM (Strike Everything):</b> <ul style="list-style-type: none"> <li>Requires all asset managers that invest in equities on behalf of this state to submit an annual report to the entity on whose behalf they are investing.</li> <li>Requires affected state entities to provide an annual report to the governor, president of the senate, speaker of the house of representatives and the chairpersons of the house ways and means committee and the senate finance committee.</li> <li>Defines “federal designated terrorist sponsoring country or government” to mean those countries or governments that are designated as terrorist sponsoring by the U.S. Department of State, except Cuba.</li> <li>Only one company has been identified that could supply a portion of the required information to the asset managers for a fee.</li> </ul>	<b>Assigned:</b> Hse. WM. <b>Status:</b> Passed Hse. WM DPA/SE 7-4-0-1. Awaiting Hse. RULES. <b>DEAD (?)</b>	<b>As Amended:</b> Requested.	<b>As Amended:</b> A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.
<b>HB 2398 – ASRS; long-term disability increase</b> by Carruthers, O’Halloran, Gullett <b>As Introduced:</b> Provides an increase to a member’s LTD benefit equal to a benefit increase provided to a retired member of ASRS.	<b>Assigned:</b> Hse. GR, Hse. APPROP. <b>Status:</b> Awaiting Hse. GR. <b>DEAD (?)</b>	<b>As Introduced:</b> Not requested.	<b>As Introduced:</b> Unfunded liability of \$56.0 million, an increase in the LTD contribution rate for all employers and employees of 0.09% each, which is a combined cost of \$7.4 million more in contributions annually (GF cost of \$1.8 million per year).
<b>HB 2401 – deferred retirement option plan</b> by Wagner, Quelland, Gray, and 6 <b>As Introduced:</b> Provides a deferred retirement option plan option to members of the ASRS, PSPRS, and CORP.	<b>Assigned:</b> Hse. GR, Hse. APPROP. <b>Status:</b> Awaiting Hse. GR. <b>DEAD (?)</b>	<b>As Introduced:</b> Not requested.	<b>As Introduced:</b> Unfunded liability of \$634.8 million, an increase in the contribution rate for all employers and employees of 0.45% each, which is a combined cost of \$31.5 million more in contributions annually for 17 years (GF cost of \$7.5 million per year).
<b>HB 2455 – ASRS; termination option</b> by Huppenthal <b>As Passed the House:</b> Makes technical changes to the Modified DROP Program.	Passed Hse. 57-0-3. <b>Assigned:</b> Sen. FIN. <b>Status:</b> Passed Sen. FIN DP 9-0-0. Passed Sen. RULES PFC. Passed Consent Calendar. Awaiting Sen. Third Read.	<b>As Passed the House:</b> None Expected.	<b>As Passed the House:</b> None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>HCR 2002 – impeachment; public retirement systems; forfeiture</b> by Huppenthal <b>As Introduced:</b> Constitutional amendment to allow the senate to require an impeached official to forfeit their public retirement benefits from the office for which they were impeached.	<b>Assigned:</b> Hse. GR, Hse. JUD. <b>Status:</b> Awaiting Hse. GR. <b>DEAD (?)</b>	<b>As Introduced:</b> None Expected.	<b>As Introduced:</b> None.
<b>HCR 2029 – public monies; investment protection</b> by Nichols, Verschoor <b>As Introduced:</b> Urges all asset managers and financial firms that invest or manage monies on behalf of the state to submit semiannual reports concerning companies engaged in business practices within a country designated by the United States Department of State as one that supports terrorist activities.	<b>Assigned:</b> Hse. GR, Hse. APPROP. <b>Status:</b> Passed Hse. GR DP 10-0-0-2. Awaiting Hse. APPROP. <b>DEAD (?)</b>	<b>As Introduced:</b> Requested.	<b>As Introduced:</b> Not Requested. (If implemented, cost may be the same as SB 1296 and HB 2397.)
<b>SB 1036 (see HB 2349) – public retiree health insurance subsidy</b> by Arzberger and 23 <b>As Amended in Hse. Health:</b> <ul style="list-style-type: none"> <li>Establishes minimum out-of-pocket premium costs for health coverage in order to be eligible for the rural subsidy.</li> <li>Provides that the family-rate rural subsidy is only available if the retiree has family medical coverage.</li> </ul>	Passed Senate 25-5. <b>Assigned:</b> Hse. HEALTH, Hse. GR, Hse APPROP. <b>Status:</b> Passed Hse. HEALTH DPA 11-0-0-1. HELD Hse. GR 04/01/03. <b>DEAD (?)</b>	<b>As Amended:</b> \$185,000 one-time implementation cost.	<b>As Amended:</b> Unfunded liability of \$19.8 million, an increase in the contribution rate for all employers and employees of 0.028% each, which is a combined cost of \$2.0 million more in contributions annually for 18 years (GF cost of \$225,000 per year).
<b>SB 1037 – ASRS; surviving spouses; health insurance</b> by Arzberger and 17 <b>As Passed the House:</b> Provides a retiring member who selects a joint and survivor or period certain annuity the ability to select an optional health insurance subsidy that continues to the contingent annuitant after the member's death. Appropriates \$537,000 from the ASRS administration account to the ASRS for implementation costs.	Passed Senate 29-0-1. Passed House 58-0-2. <b>Assigned:</b> Hse. GR, Hse. WM. <b>Status:</b> Transmitted to Sen. 04/10/03. Senate Concur 04/15/03. Awaiting Sen. Final Read.	<b>As Passed the House:</b> \$537,000 one-time implementation cost.	<b>As Passed the House:</b> Actuarial letter received stating this bill is cost neutral.
<b>SB 1160 (see HB 2024) – ASRS; veterans; service credits</b> by Arzberger <b>As Introduced:</b> <ul style="list-style-type: none"> <li>Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest.</li> <li>Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements.</li> <li>Appropriates \$50,000 to the ASRS for making the recalculations.</li> </ul>	<b>Assigned:</b> Sen. FIN, Sen. APPROP. <b>Status:</b> Awaiting Sen. FIN. <b>DEAD (?)</b>	<b>As Introduced:</b> Requested.	<b>As Introduced:</b> Potential unfunded liability of \$628,050, and increase in the contribution rate for all employers and employees of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>SB 1221 – ASRS; study committee; health costs</b> by Arzberger, Aguirre, Brotherton <b>As Amended in Sen. FIN:</b> Creates a study committee on managing retiree health-care costs.	<b>Assigned:</b> Sen. FIN. <b>Status:</b> Passed Sen. FIN DPA 6-0-3. Passed Sen. RULES PFC. Awaiting Sen. COW. <b>DEAD (?)</b>	<b>As Amended:</b> None Expected.	<b>As Amended:</b> None.
<b>SB 1224 – NOW: supplemental defined contribution plan; procedures</b> by Martin, Reagan <b>As Passed Conference Committee:</b> Makes changes to the supplemental defined contribution plan in order to conform to IRS requirements. <ul style="list-style-type: none"> <li>Requires an employee to make an election to participate in the Plan within two years after the employee first becomes eligible to participate in the Plan.</li> <li>States that an election to participate in the Plan is irrevocable and continues for the remainder of employment.</li> <li>Allows the employer to annually increase or decrease the employee contributions in increments of one per cent up to the maximum allowed by law OR requires the employee to make one-time irrevocable elections of the employee's contribution amount.</li> <li>Clarifies the procedures for employer matching contributions.</li> </ul>	Passed Senate 29-0-1. Passed House 60-0-0. <b>Assigned:</b> Hse. GR, Hse. APPROP. <b>Status:</b> Transmitted to Senate 04/14/03. Senate Refuse 04/17/03. <u><b>Passed Conference Committee DPA.</b></u> <u><b>Awaiting Sen. and Hse. Final Read.</b></u>	<b>As Passed Conference Committee:</b> None Expected.	<b>As Passed Conference Committee:</b> None.
<b>SB 1225 – ASRS; investment management; requirement</b> by Martin <b>As Chaptered:</b> Amends A.R.S. 38-718 to correct for the change in name of the organization responsible for awarding the chartered financial analyst designation from "institute of chartered financial analysts" to the "Association for Investment Management and Research."	Passed Senate 30-0. Passed House 53-1-6. <b>Status:</b> Transmitted to Governor 04/08/03. Signed 04/14/03. <u><b>Chapter 63.</b></u>	<b>As Chaptered:</b> None Expected.	<b>As Chaptered:</b> None.
<b>SB 1226 – ASRS; legal counsel</b> by Martin <b>As Introduced:</b> Exempts the ASRS from obtaining legal counsel only from the Attorney General.	<b>Assigned:</b> Sen. JUD, Sen. FIN. <b>Status:</b> Passed Sen. FIN DP 8-0-1. FAILED Sen. JUD 3-4-2. Scheduled, not heard Sen. JUD 02/26/03. <b>DEAD (?)</b>	<b>As Introduced:</b> None Expected.	<b>As Introduced:</b> None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>SB 1296 (see HB 2397) – public monies; investment protection</b> by Martin, Stump, Yarbrough <b>As Passed the Senate:</b> <ul style="list-style-type: none"> <li>Requires asset managers and financial firms that invest money on behalf of the state to submit annual reports if they have identified that they invest state money in companies that are listed on the US Treasury Department's Office of Foreign Assets Control specially designated nationals' and blocked persons list. The report must include a list of companies that the fund manager holds that are on the list, as well as alternative investment strategies and their impact on the funds and how the portfolio could be altered to exclude those companies.</li> <li>Prohibits any fund manager that fails to provide a report from investing money on behalf of the state.</li> <li>Establishes a task force to study ways for public funds managers to mitigate the risks when investing in companies that have ties to terrorist sponsoring countries and ways and methods to limit investments in companies with ties to terrorist sponsoring countries without compromising portfolio returns.</li> <li>Repeals the task force on December 31, 2004.</li> </ul>	Passed Senate 16-10-4. <b>Assigned:</b> Not yet assigned. <b>Status:</b> Awaiting Hse. First Read. <b>DEAD (?)</b>	<b>As Passed the Senate:</b> Requested.	<b>As Passed the Senate:</b> Requested.

## LEGEND

AMEND C&P	Constitutional and Proper as Amended by the House Rules Committee	HB	House Bill
APPROP	Appropriations Committee	HCR	House Concurrent Resolution
ASRS	Arizona State Retirement System	HHR	House Hearing Room
C&P	Constitutional and Proper	Hse.	House of Representatives
CORP	Corrections Officer Retirement Plan	JUD	Judiciary Committee
COW	Committee of the Whole	LTD	Long Term Disability
DP	Do Pass	PFC	Proper for Consideration
DPA	Do Pass as Amended	PFCA	Proper for Consideration as Amended by the Senate Rules Committee
EORP	Elected Officials' Retirement Plan	PSPRS	Public Safety Personnel Retirement System
FII	Financial Institutions and Insurance Committee	SB	Senate Bill
FIN	Finance Committee	S/E	Strike Everything Amendment
GF	General Fund	Sen.	Senate
GOV	Government Committee	SHR	Senate Hearing Room
GR	Government and Retirement Committee	WM	Ways and Means Committee

**The weekly legislative report is available on-line at the ASRS Web site:  
[www.asrs.state.az.us](http://www.asrs.state.az.us)**

ASRS External Affairs staff and the Legislative Board Committee meet during the legislative session. The meetings take place in the 14th floor conference room of the ASRS office at 3300 N. Central Ave., Phoenix, and are open to the public. The purpose of these meetings is to review legislative activity on retirement bills from the previous week, and to review the scheduled bill activity in committees and on the floor for the upcoming week. Committee members ask technical and background questions, and review the latest information gathered from the Capitol and retirement groups from around the state. Meetings are teleconferenced to the ASRS Tucson office at 7660 E. Broadway Blvd., Tucson. Meeting agendas and minutes will be posted on the ASRS website. If you have questions relating to legislation, please contact Kelly Orrick at (602) 240-2027 or via email at [KellyO@asrs.state.az.us](mailto:KellyO@asrs.state.az.us).